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The EU is Gearing Up for a New Export Record

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Report Highlights:

The European Union (EU) is forecast to produce and export a record volume of red meat in 2017.

While beef production is increasing due to the restructuring of the dairy sector, pork production is also on the rise due to demand from China. Since 2013, the EU has been the biggest pork exporter in the world. This year, pork exports are expected to remain strong as new market openings are being sought and found, and sales are being supported by the acknowledged quality of EU pork and a favorable currency exchange rate.

Executive Summary

Cattle & Beef

After the abolishment of the milk quotas in April 2015, milk production shifted to the most productive regions and farms. As a result of this restructuring, slaughter of dairy cattle increased in the European Union (EU). During 2015 and 2016, significant cuts were reported in Italy, Spain, Poland, France, Romania and Germany, while Ireland and the Netherlands expanded their dairy herds. However, in 2017, Dutch slaughter of dairy cattle is expected to surge as the government has imposed regulations to curb milk production. Further restructuring of the EU dairy sector will continue and additional slaughter is expected in 2017. As a result, beef production is forecast to increase for the fourth successive year, with most of the additional production being absorbed by the domestic EU market.

Swine & Pork

Chinese demand for pork raised EU export levels to a new record in 2016. Foreign demand for pork buoyed carcass prices, and subsequently average fattening margins improved allowing farmers to make up for the earlier losses in 2015. While Chinese demand weakened in the last months of 2016 driving carcass prices down, fattening margins were still positive. These positive market conditions are expected to further support piglet production and fattening in 2017. The EU is likely to retain its dominant position in the Chinese market based on recognized quality and the favorable exchange rate of the Euro against the Yuan and US Dollar. This year, the EU is forecast to reach new pork production and export records.

Cattle

| Animal Numbers, Cattle | 2015 | | 2016 | | 2017 | |
|-------------------------------|------------------|-------------|------------------|-------------|------------------|-------------|
| European Union | USDA Official | New Post | USDA Official | New Post | USDA Official | New Post |
| Total Cattle Beg. Stks | 88,406 | 88,406 | 89,152 | 89,152 | 89,250 | 89,250 |
| Dairy Cows Beg. Stocks | 23,559 | 23,559 | 23,595 | 23,595 | 23,475 | 23,545 |
| Beef Cows Beg. Stocks | 12,037 | 12,037 | 12,312 | 12,312 | 12,375 | 12,390 |
| Production (Calf Crop) | 29,900 | 29,900 | 30,150 | 30,100 | 30,100 | 30,080 |
| Total Imports | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Supply | 118,306 | 118,306 | 119,302 | 119,252 | 119,350 | 119,330 |
| Total Exports | 810 | 810 | 1,000 | 998 | 1,100 | 1,050 |
| Cow Slaughter | 11,361 | 11,325 | 11,680 | 11,900 | 11,720 | 11,950 |
| Calf Slaughter | 6,370 | 6,414 | 6,500 | 6,500 | 6,550 | 6,550 |
| Other Slaughter | 8,825 | 8,790 | 9,020 | 8,750 | 9,030 | 8,850 |
| Total Slaughter | 26,556 | 26,529 | 27,200 | 27,150 | 27,300 | 27,350 |
| Loss | 1,788 | 1,815 | 1,852 | 1,854 | 1,850 | 1,800 |
| Ending Inventories | 89,152 | 89,152 | 89,250 | 89,250 | 89,100 | 89,130 |
| Total Distribution | 118,306 | 118,306 | 119,302 | 119,252 | 119,350 | 119,330 |
| (1000 HEAD) | | | | | | |

Not Official USDA data. Source: Eurostat and FAS Offices in the EU. Note: The cattle balance for 2015 was slightly adjusted due to a correction of Eurostat statistics of Spanish slaughter.

The liberalization of the dairy market induced slaughter of cows in 2015 and 2016.

The trends are unchanged from the forecast in the Annual Report. Due to the fact that two-thirds of the cattle are dairy cows, trends in the cattle balance are mainly influenced by the dairy market. Favorable milk prices were reported in 2013 and 2014, however, the elimination of the dairy quota regime in April 2015 resulted in plummeting milk prices until mid-2016. Due to this liberalization, dairy production shifted to the most productive countries, mainly Ireland and the Netherlands. In most other EU Member States, the slaughter of dairy cattle increased and dairy herds were reduced. During 2015 and 2016, this upturn in the slaughter of dairy cattle was most pronounced in Italy, Spain, Poland, France, Romania and Germany. Back yard slaughter (slaughter other than in slaughterhouses) has been falling from about 950,000 animals in 2014, to 800,000 animals in 2015. This trend is expected to continue as backyard slaughter is anticipated to drop to 550,000 animals in 2016. This occurs mainly in Romania.

External forces may impact Irish and Dutch dairy herds

The size of the Irish breeding herd is forecast to continue to rise in 2017, both in terms of its dairy and beef herd, but Brexit uncertainties may temper the level of herd expansion in the long term. In contrast, the Dutch herd is expected to be reduced significantly in 2017. After the EU abolished the national milk quotas in April 2015, Dutch dairy herds, and the accompanying production of phosphates, increased to above the EU maximum permitted level. In February 2017, the Netherlands received approval from the European Commission (EC) for a phosphate reduction plan that will cut the herd by about 160,000 animals (for more information see GAIN Report NL7006).

In contrast to the EU dairy cow herd, the EU beef cow herd is expected to expand this year. Farmers in Belgium, France, Hungary, and Bulgaria are subsidized by coupled payments specifically for beef cows.

Despite the spread of Bluetongue Disease (BTD) and Lumpy Skin Disease (LSD), which has complicated export procedures, exports of live animals increased in 2016 and are anticipated to expand further in 2017. In 2016, exports increased most significantly to Israel and Turkey, predominantly animals for breeding and fattening.

Overall, the lower supply of replacement animals, the higher slaughter rates, and the expansion of exports are forecast to result in a reduction of inventories at the end of 2017.

Beef

| Meat, Beef and Veal | 2015 | | 2016 | | 2017 | |
|----------------------------|---------------|----------|---------------|----------|---------------|----------|
| European Union | USDA Official | New Post | USDA Official | New Post | USDA Official | New Post |
| Slaughter (Reference) | 26,556 | 26,529 | 27,200 | 27,150 | 27,300 | 27,350 |
| Beginning Stocks | 0 | 0 | 0 | 0 | 0 | 0 |
| Production | 7,691 | 7,684 | 7,850 | 7,830 | 7,850 | 7,875 |
| Total Imports | 363 | 363 | 370 | 369 | 375 | 375 |
| Total Supply | 8,054 | 8,047 | 8,220 | 8,199 | 8,225 | 8,250 |
| Total Exports | 303 | 303 | 330 | 345 | 350 | 355 |
| Human Consumption | 7,751 | 7,744 | 7,890 | 7,854 | 7,875 | 7,895 |
| Other Use, Losses | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Consumption | 7,751 | 7,744 | 7,890 | 7,854 | 7,875 | 7,895 |
| Ending Stocks | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Distribution | 8,054 | 8,047 | 8,220 | 8,199 | 8,225 | 8,250 |
| (1000 HEAD) ,(1000 MT CWE) | | | | | | |

Not Official USDA data. Source: Eurostat and FAS Offices in the EU. Note: Similar to the cattle balance, the beef balance has been adjusted due to a correction of Eurostat statistics of Spanish slaughter.

Elevated beef production absorbed by the domestic market.

The trends in the balance are unchanged from the trends reported in the Annual Report. Although beef production increased by 1.9 percent in 2016 (based on official Eurostat slaughter statistics for the first eleven months of the year and anticipated backyard slaughter), it is still well below the volume reported during the 2000-2010 period, which fluctuated between the 7.9 and the 8.4 million metric tons. Official figures reflect a minor reduction of the slaughter weight by about 0.9 kg during the first eleven months of 2016. The slaughter weight is expected to decline by about another 0.5 kg during 2017 due to the lower share of dairy animals being slaughtered. Overall beef production is forecast to increase by about 45,000 MT, a volume which is easily being absorbed by the domestic market. In 2017, driven by increased supply, beef consumption is expected to rise for the third successive year, still well below the peak of 8.8 million metric tons reported in 2007.

Imports flat but exports are on the rise.

In 2016, imports of fresh beef stagnated due to restrictive quotas for high quality beef. Reduced shipments were reported from Australia and the United States. Imports of frozen beef, used for further processing, rose due to rising demand in the EU. Higher imports were reported from Paraguay and Botswana. While total imports remained flat during 2016, exports grew by fourteen percent. Exports will likely further expand in 2017 as a result of market openings and the favorable exchange rate. Spain, Ireland and the Netherlands are expected to increase exports to third country destinations. According to the Spanish beef industry, priority beef markets for 2017 will be China, Japan, Korea and Indonesia.

Swine

| Animal Numbers, Swine | 2015 | | 2016 | | 2017 | |
|-------------------------------|------------------|-------------|------------------|-------------|------------------|-------------|
| | USDA Official | New Post | USDA Official | New Post | USDA Official | New Post |
| European Union | | | | | | |
| Total Beginning Stocks | 148,341 | 148,341 | 148,724 | 148,716 | 147,900 | 147,248 |
| Sow Beginning Stocks | 12,542 | 12,542 | 12,302 | 12,293 | 12,170 | 12,090 |
| Production (Pig Crop) | 265,800 | 265,287 | 264,000 | 263,950 | 264,000 | 264,500 |
| Total Imports | 3 | 3 | 3 | 3 | 3 | 3 |
| Total Supply | 414,144 | 413,631 | 412,727 | 412,669 | 411,903 | 411,751 |
| Total Exports | 435 | 436 | 400 | 281 | 400 | 300 |
| Sow Slaughter | 4,156 | 4,156 | 4,200 | 4,200 | 4,150 | 4,150 |
| Other Slaughter | 254,811 | 254,315 | 254,300 | 255,000 | 253,850 | 255,400 |
| Total Slaughter | 258,967 | 258,471 | 258,500 | 259,200 | 258,000 | 259,550 |
| Loss | 6,018 | 6,008 | 5,927 | 5,940 | 5,903 | 5,901 |
| Ending Inventories | 148,724 | 148,716 | 147,900 | 147,248 | 147,600 | 146,000 |
| Total Distribution | 414,144 | 413,631 | 412,727 | 412,669 | 411,903 | 411,751 |
| (1000 HEAD) | | | | | | |

Not Official USDA data. Source: Eurostat and FAS Offices in the EU. Note: 2015 Slaughter and production figures are revised based on a correction of official Spanish slaughter statistics.

Swine slaughter rises for the third successive year.

2016 Slaughter is revised 0.7 million head upwards from the forecast made in the Annual Report. This correction is mainly a result of higher than expected Polish and German slaughter, which was buoyed by the import of piglets from Denmark. Denmark is the preferred supplier of piglets in Germany and Poland. While this is only a slight adjustment, it is reversing the trend from a declining to a rising slaughter in 2016. Based on the first eleven months, slaughter in official slaughterhouses increased by about 0.5 percent during 2016. While backyard slaughter declined from 3.4 million animals to about 2.8 million animals. In absolute terms slaughter increased most significantly in Spain, Poland and Italy. The most significant reductions were reported in Denmark and Belgium, and in lesser extent Germany.

Increased productivity will outbalance a smaller sow herd.

The sow herd declined to about 12.09 million head in 2016; although this is a smaller reduction than reported in 2015. An important factor is the recovering piglet prices during last year (see graph). Due to this limited cut and the trend of improving productivity, the pig crop is forecast to increase this year. Denmark is expected to increase production and further expand exports to mainly Germany and Poland. Besides Denmark, Spain and the United Kingdom are also expected to increase production of piglets. Spain, successfully integrated the feeding, fattening, slaughtering and marketing activities of its sector and supported by increased efficiency in production, has expanded to become the second largest piglet and pork producer in the EU, next to Germany. The sector in the United Kingdom is expected to take advantage of the favorable exchange rate of the Sterling against the Euro, and expand its sow herd in 2016.

Positive margins support a sustained demand for piglets in 2017.

During 2016 and the start of 2017, average profit margins were positive but hardly sufficient to compensate for the losses made in 2015. While carcass prices have risen and feed prices remain at a relatively low level, prices for piglets surged. Organic pork producers in the Netherlands and Austria are reportedly achieving better financial results than conventional farmers because of higher prices paid by the consumer. With the generally positive margins, demand for piglets and resulting fattening will remain steady, and slaughter is forecast to increase by 350,000 head.

Pork

| Meat, Swine | 2015 | | 2016 | | 2017 | |
|----------------------------|---------------|----------|---------------|----------|---------------|----------|
| European Union | USDA Official | New Post | USDA Official | New Post | USDA Official | New Post |
| Slaughter (Reference) | 258,967 | 258,471 | 258,500 | 259,200 | 258,000 | 259,550 |
| Beginning Stocks | 0 | 0 | 0 | 0 | 0 | 0 |
| Production | 23,290 | 23,249 | 23,350 | 23,400 | 23,350 | 23,450 |
| Total Imports | 12 | 12 | 12 | 12 | 12 | 12 |
| Total Supply | 23,302 | 23,261 | 23,362 | 23,412 | 23,362 | 23,462 |
| Total Exports | 2,389 | 2,389 | 3,300 | 3,126 | 3,300 | 3,320 |
| Human Dom. Consumption | 20,913 | 20,872 | 20,062 | 20,286 | 20,062 | 20,142 |
| Other Use, Losses | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Dom. Consumption | 20,913 | 20,872 | 20,062 | 20,286 | 20,062 | 20,142 |
| Ending Stocks | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Distribution | 23,302 | 23,261 | 23,362 | 23,412 | 23,362 | 23,462 |
| (1000 HEAD) ,(1000 MT CWE) | | | | | | |

Not Official USDA data. Source: Eurostat and FAS Offices in the EU. Note: Similar to the cattle, beef and swine PSD, the pork balance for 2015 was adjusted based on corrections of official Spanish statistics.

The EU reached a record pork production level in 2016.

Combined official and backyard slaughter statistics of the first eleven months report a pork production of 23.4 MMT in 2016, which is a record volume, never earlier reported. The average slaughter weight increased from 89.94 kg in 2015 to 90.31 kg. Spain, Poland and Italy increased production most

significantly. Major cuts were reported in Denmark, Belgium and Germany, pointing to the weak competitiveness of their fattening and slaughter activities.

Chinese demand matched EU oversupply of pork.

EU exports have also surged to a record volume, though not at the level anticipated in the Annual Report. During March-June, shipments surged to China (see graph). When production in China fell, the EU had sufficient stock available to fulfill the Chinese import demand. Furthermore, exports were supported by low domestic carcass prices (see graph) and a favorable exchange rate of the Euro against the US Dollar and Chinese Yuan. But during the last months of the year, China reduced their imports from the EU as well as from other suppliers, such as Canada and the United States. In addition to China, the EU also increased exports to Hong Kong, Japan and South Korea.

EU looking for new markets

Based on the assumption of stagnant feed prices (see FAS Grain & Feed updates), the average carcass weight is expected to remain at about 90.3 kg in 2017, resulting in a new record production level in 2017. EU pork consumption has been dropping since 2010, and demand declined another 600,000 metric tons in 2016. Domestic consumption is slackening most noteworthy in the largest market, namely Germany. An important reason for the falling consumption is health considerations affecting in particular the fatty cuts and products. Recent carcass quotations point to a saturation of domestic as well as export markets. But with the absence of the Russian market, and the weakening of Chinese demand for EU pork, EU Member States are eager to open new markets elsewhere. Spanish pork exports are growing quickly in Asia as a result of the internationalization procedures that the Spanish swine producers and industry have implemented. According to the Spanish pork industry, Spanish pork exports to third countries are estimated to slightly increase during 2017.

Policy

Animal Disease Situation

In 2015 and 2016, the threat of Lumpy Skin Disease progressed from Turkey and the Balkan region into several Southern EU member states (MS). Vaccination programs prevented the disease from further spreading into neighboring countries.

African Swine Fever (ASF) has continued to spread through the wild boar population in the Baltic countries; however, veterinary safeguard measures have been successful in preventing the disease from spreading south and westwards in Poland.

High Quality Beef Quota (HQBQ)

The U.S. beef industry put forward a petition to reinstate trade actions against the EU in connection with the EU's longstanding ban on the import of most beef produced in the United States. On February 15-16, 2017, the Office of the United States Trade Representative (USTR) held a hearing in Washington, DC to gather comments on the petition.

Comprehensive Economic and Trade Agreement (CETA) with Canada

On February 15, 2017, the European Parliament (EP) approved the EU - Canada Comprehensive Economic and Trade Agreement (CETA). As a result, this free-trade agreement with Canada will become provisionally operational as of April 1, while EU member states continue the ratification process. CETA could still grind to a halt if any Member State fails to ratify.

As part of CETA, Canada will gain duty-free access for beef to the European market through a tariff rate quota (TRQ) totaling almost 50,000 metric tons. Part of this quota comes from shifting Canada's share of the HQBQ to a country-specific quota. Canadian beef shipped into the EU's 20 percent duty Hilton quota for 11,500 metric tons that the United States shares with Canada, also becomes duty free from the day of implementation. Canada further receives duty-free access for 3,000 metric tons of bison and 75,000 metric tons of pork. All TRQs are gradually implemented over a six-year time period.

DISCLAIMER

The numbers in the PSDs in this report are not official USDA numbers, but they result from a collaborative effort by FAS EU offices to consolidate PSDs from all 28 EU member states.

This report is the result of active collaboration with the following EU FAS colleagues in the following member states:

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NOTE

In this report the following HS codes and conversion factors are used:

| | HS codes | Conversion factors |
|-------------|--|---------------------------|
| Beef | 0201, 0202 | PW X 1.40 = CW |
| | 021020, 160250 | PW X 1.79 = CW |
| Pork | 0203, 021011, 021012, 021019, 160241, 160242, 160249 | PW X 1.30 = CW |

PW = Product Weight CW = Carcass Weight

ABBREVIATIONS

EC: European Commission
EU: All twenty-eight Member States of the European Union.
MS: An EU Member State
NMS: The thirteen new Member States which joined the EU in May 2004, January 2007 and July 2012

Related reports from FAS Post in the European Union:

| Country | Title | Date |
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